

**FILED**

**FEB 10 2016**

**SECRETARY, BOARD OF  
OIL, GAS & MINING**

**BEFORE THE BOARD OF OIL, GAS AND MINING  
DEPARTMENT OF NATURAL RESOURCES  
STATE OF UTAH**

IN THE MATTER OF THE REQUEST FOR  
AGENCY ACTION OF CCI PARADOX  
UPSTREAM LLC FOR AN ORDER  
ESTABLISHING A SPECIAL DRILLING UNIT  
FOR THE MIDDLE MESA FEDERAL  
26-23-29-24 DIRECTIONALLY DRILLED WELL  
FOR THE PRODUCTION OF GAS AND  
ASSOCIATED OIL AND HYDROCARBONS  
FROM THE HERMOSA FORMATION  
COMPRISED OF THE SE $\frac{1}{4}$ SE $\frac{1}{4}$ NW $\frac{1}{4}$  AND  
SW $\frac{1}{4}$ SW $\frac{1}{4}$ NE $\frac{1}{4}$  OF SECTION 26, TOWNSHIP 29  
SOUTH, RANGE 24 EAST, SLM, SAN JUAN  
COUNTY, UTAH

**REQUEST FOR AGENCY ACTION**

Docket No. 2016-006

Cause No. 166-08

COMES NOW, CCI Paradox Upstream LLC ("CCI"), acting by and through its attorneys, MacDonald & Miller Mineral Legal Services, PLLC, and pursuant to Utah Code Ann. §§40-6-5(3)(b) and 40-6-6(6), and hereby respectfully requests the Board of Oil, Gas and Mining (the "Board") to enter an order establishing a special drilling unit for the Middle Mesa Federal 26-23-29-24 directionally drilled well (the "Subject Well") for the production of gas and associated oil and hydrocarbons from the Hermosa formation, defined for purposes of this Cause as follows:

that interval between the stratigraphic equivalence of 4,089 feet (MD) and 5,796 feet (MD), as shown on the Gamma Ray Log of the Middle Mesa Federal 26-23-29-24 Well, with a surface hole location in the SW $\frac{1}{4}$ NE $\frac{1}{4}$ , Section 26, T29S, R24E, SLM,

(the “Subject Formation”), comprised of the following San Juan County, Utah lands:

Township 29 South, Range 24 East, SLM

Section 26: SE $\frac{1}{4}$ SE $\frac{1}{4}$ NW $\frac{1}{4}$  and SW $\frac{1}{4}$ SW $\frac{1}{4}$ NE $\frac{1}{4}$

(containing 20 acres)

(the “Subject Lands”), retroactive to October 1, 2014, the date of first production from the Subject Well.

In support of this request, CCI respectfully states and represents:

1. CCI is a Delaware limited liability company in good standing with its principal place of business in Houston, Texas. CCI is duly qualified to conduct business in the State of Utah, and is fully and appropriately bonded with all relevant Federal and State of Utah agencies.

2. The oil and gas underlying the Subject Lands are owned by the United States of America, administered by the Bureau of Land Management (“BLM”), and are subject to United States Oil and Gas Lease UTU-77538 (the “Subject Lease”). CCI is the sole lessee and operating rights owner under the Subject Lease.

3. The SW $\frac{1}{4}$ SW $\frac{1}{4}$ NE $\frac{1}{4}$  of Section 26 and the Subject Lease (only insofar as it covers the SW $\frac{1}{4}$ NE $\frac{1}{4}$  of Section 26) are fully committed to the Middle Mesa Federal Exploratory Unit, approved by the BLM effective October 1, 1998. CCI currently serves as Unit Operator. All of the Subject Lands were originally included in and committed to

said Unit. However, the SE $\frac{1}{4}$ SE $\frac{1}{4}$ NW $\frac{1}{4}$  of Section 26 was contracted out of the Unit effective October 1, 2013 pursuant to the terms of the governing Unit Agreement.

4. The contracted Unit Area is now comprised of 899.68 acres, 739.68 acres, including the SW $\frac{1}{4}$ SW $\frac{1}{4}$ NE $\frac{1}{4}$  of Section 26, of which comprise the Fifth Revised Hermosa Group Consolidated Participating Area "A", which formation equates to the Subject Formation. The remaining 160 acres comprise the Initial Hermosa Participating Area "B."

5. Pursuant to an application to drill approved by both the BLM and Utah Division of Oil, Gas and Mining (the "Division"), CCI spud the Subject Well on August 11, 2014 at a surface location 2,157 feet FNL and 2,036 feet FEL in the SW $\frac{1}{4}$ NE $\frac{1}{4}$  of Section 26, and directionally drilled it to a bottom hole location 2,350 feet FNL and 2,489 feet FWL in the SE $\frac{1}{4}$ NW $\frac{1}{4}$  of Section 26. The Well was completed as a producing gas well on November 3, 2014, with first production on October 1, 2014. The Well has productive intervals throughout the Subject Lands.

6. Since the Well has productive intervals both outside and inside the Unit boundaries, under Federal regulations, a communitization agreement will be required. However, under Federal guidelines, the BLM will not approve a communitization agreement without a conforming spacing order from the Board. There currently is no spacing order from the Board relating to the Subject Lands. With respect to the portion of

the Well draining the Unit participating area, under Federal regulations and guidelines, any production allocated to such participating area lands under a conforming communitization agreement is then to be allocated pro-rata over the entire participating area.

7. By Letter dated July 15, 2015, the BLM advised CCI it must either seek expansion of the Unit and the Hermosa Group Consolidated Participating Area "A" or submit a communitization agreement after the Well has been spaced by the Board. CCI has chosen to pursue the latter.

8. Consequently, and to protect correlative rights, CCI requests the Board to establish a special drilling unit for the Subject Well, *i.e.*, the gas and associated oil and hydrocarbons produced from the Hermosa formation (as defined above) comprised of the Subject Lands (20 acres), retroactive to October 1, 2014, the date of first production from the Subject Well.

9. CCI believes and therefore alleges that: (1) the Hermosa formation (as defined above) underlying the Subject Lands generally constitutes a common source of supply for gas and associated oil and hydrocarbons; and (2) the Subject Lands are not smaller than the maximum area that can be economically and efficiently drained by the Subject Well.

10. CCI's allegations made in Paragraph 9 above are supported by petrophysics, PVT and production data analysis, reflecting radial drainage no greater than 330 feet at any one productive interval. The BLM has preliminarily approved and agreed with this methodology, and with the Subject Lands constituting a drilling unit.

11. In furtherance of the protection of correlative rights, CCI requests that any new well producing from the Hermosa formation (as defined above) may not be located closer than 460 feet from any portion of the Subject Well located within said Formation without an exception location approval by the Division or Board in accordance with Utah Admin. Code Rule R649-3-3.

12. In addition, CCI requests that, presuming this Request is granted, the conforming Order be suspended without further order of the Board if and as of the effective date of the determination by the BLM that all of the Subject Lands be included within a Unit participating area. In such an event, CCI, or its successor Unit Operator, shall provide to the Board's secretary a copy of the BLM Decision Letter reflecting such a determination so that the Board's records may be properly noted to reflect such suspension becoming effective.

13. CCI believes and therefore alleges that the requested relief will allow for the orderly development of the Subject Lands, prevent waste, and adequately protect the

correlative rights of all affected parties, and is just and reasonable under the circumstances.

14. CCI will, in accordance with Board rules, submit exhibits and present testimony in support of these allegations.

15. CCI will separately file a certificate of mailing listing all parties known to it based on a search of the respective BLM, Utah School and Institutional Trust Lands Administration and San Juan County realty records, the records of the Division, and upon its own internal records, whose “legally protected interests” will be affected by this Request. There are no respondents or adverse parties known at this time to CCI.

**WHEREFORE**, CCI respectfully requests:

1. That this matter be set for hearing on March 23, 2016;
2. That notice of such hearing be given as provided by law; and
3. That upon sufficient evidence produced and testimony given at the hearing,

the Board grant this Request and issue an order:

- a) establishing a special drilling unit for the Middle Mesa Federal 26-23-29-24 directionally drilled well for the production of gas and associated oil and hydrocarbons from the Hermosa formation (as defined above), comprised of the SW $\frac{1}{4}$ SW $\frac{1}{4}$ NE $\frac{1}{4}$  and SE $\frac{1}{4}$ SE $\frac{1}{4}$ NW $\frac{1}{4}$  of Section 26, Township 26 South, Range 24 East, SLM, San Juan County, Utah, retroactive to October 1, 2014, the date of first production from said Well;
- b) providing that no new well producing from the Hermosa formation (as defined above) may be located 460 feet closer than from any

portion of the Subject Well located within said Formation without an exception location approval by the Division or Board in accordance with Utah Admin. Code Rule R649-3-3;

- c) providing said Order shall be suspended without further order of the Board if and as of the effective date of the determination by the BLM that all of the Subject Lands be included within a Unit participating area. In such event, CCI, or its successor Unit Operator, shall provide to the Board's secretary a copy of the BLM Decision Letter reflecting such determination so the Board's records may be properly noted to reflect such suspension becoming effective;
- d) making such findings and orders in connection with this Request as it deems necessary; and
- e) providing for such other and further relief as may be just and equitable under the circumstances.

Respectfully submitted this 10<sup>th</sup> day of February, 2016.

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